

MORNING SUN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2011

MORNING SUN COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2011

Officials		<u>Page</u> 1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-13
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statements		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20-21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements		
Statement of Net Assets	G	23
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Notes to Financial Statements		26-41
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds		43
Notes to Required Supplementary Information - Budgetary Reporting		44
Schedule of Funding Progress for the Retiree Health Plan		45

MORNING SUN COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2011

	<u>Schedule</u>	<u>Page</u>
Other Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	47
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	48
Nonmajor Enterprise Funds		
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	3	49
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		50-51
Schedule of Findings		52-54
Audit Staff		55

MORNING SUN COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Robert Fletcher	Board President	2011
Jason Hagge	Board Member	2011
Jon Malone	Board Member	2011
Jamie Holmes	Board Member	2013
Jim Harbison	Board Member	2013
Robert Fletcher	Board Member	2013
School Officials		
Doug Graber	Superintendent	2011
Kim Booth	District Secretary	Indefinite
Sue Bryant	District Treasurer	Indefinite
Gruhn Law Firm	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 8, 2012 on my consideration of Morning Sun Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing in Schedule 3, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morning Sun Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 Financial Highlights

- General Fund revenues increased from \$2,200,395 in fiscal 2010 to \$2,469,573 in fiscal 2011 and General Fund expenditures decreased from \$2,393,444 in fiscal 2010 to \$2,347,347 in fiscal 2011. Along with net other financing sources and uses of \$(24,899), this resulted in an increase in the District's General Fund balance from \$(51,060) in fiscal 2010 to \$46,267 in fiscal 2011, a 191% increase over the prior year.
- The increase in General Fund revenues was attributable to increased tuition and state grants received in fiscal year 2011. The decrease in expenditures was due primarily to a decrease in tuition paid.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Morning Sun Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Morning Sun Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and enterprise funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Morning Sun Community School District Annual Financial Report

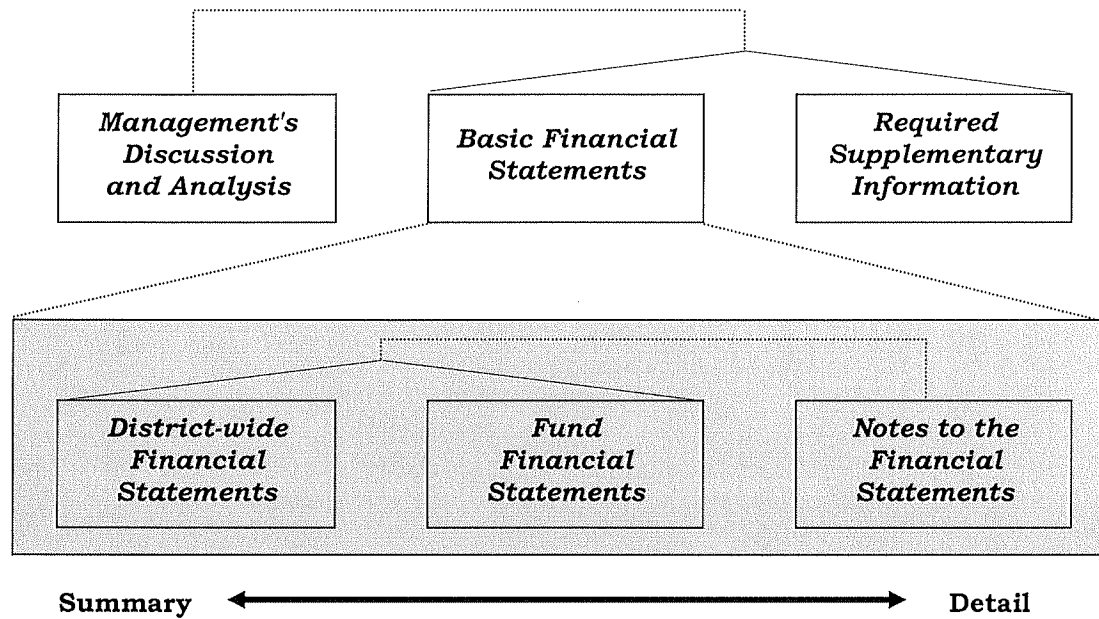


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool/daycare program
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net assets
			• Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the District's Financial Activities

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool/daycare programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool/Daycare Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Current and other assets	\$ 1,616,313	\$ 1,326,534	\$ 43,155	\$ 1,401	\$ 1,659,468	\$ 1,327,935	24.97%
Capital assets	<u>760,372</u>	<u>785,434</u>	<u>52</u>	<u>138</u>	<u>760,424</u>	<u>785,572</u>	-3.20%
Total assets	<u>2,376,685</u>	<u>2,111,968</u>	<u>43,207</u>	<u>1,539</u>	<u>2,419,892</u>	<u>2,113,507</u>	14.50%
Long-term liabilities	3,010	34,500	-	-	3,010	34,500	-91.28%
Other liabilities	<u>1,013,092</u>	<u>762,016</u>	<u>90,348</u>	<u>41,516</u>	<u>1,103,440</u>	<u>803,532</u>	37.32%
Total liabilities	<u>1,016,102</u>	<u>796,516</u>	<u>90,348</u>	<u>41,516</u>	<u>1,106,450</u>	<u>838,032</u>	32.03%
Net assets							
Invested in capital assets	760,372	785,434	52	138	760,424	785,572	-3.20%
Restricted	513,326	513,834	-	-	513,326	513,834	-0.10%
Unrestricted	<u>86,885</u>	<u>16,184</u>	<u>(47,193)</u>	<u>(40,115)</u>	<u>39,692</u>	<u>(23,931)</u>	-265.86%
Total net assets	<u>\$ 1,360,583</u>	<u>\$ 1,315,452</u>	<u>\$ (47,141)</u>	<u>\$ (39,977)</u>	<u>\$ 1,313,442</u>	<u>\$ 1,275,475</u>	2.98%

The District's combined net assets decreased by 3%, or \$37,967, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment).

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased by \$508, or approximately .1% from the prior year. The decrease was primarily a result of increased expenses and a reduction of revenues.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased by \$63,623 or approximately -266%. This increase in unrestricted net assets was a result of the District receiving more revenue than expenditures for the fiscal year in the General Fund.

Figure A-4 shows the change in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change 2010- 2011
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Revenues							
Program revenues							
Charges for service and sales	\$ 236,542	\$ 229,970	\$ 65,996	\$ 58,580	\$ 302,538	\$ 288,550	4.85%
Operating grants	445,735	492,574	33,968	29,400	479,703	521,974	-8.10%
General revenues							
Property tax	795,813	730,848	-	-	795,813	730,848	8.89%
Statewide sales, services and use tax	67,076	131,012	-	-	67,076	131,012	-48.80%
Unrestricted state grants	918,954	746,516	-	-	918,954	746,516	23.10%
Contributions and donations	1,303	2,584	-	-	1,303	2,584	-49.57%
Unrestricted investment earnings	940	10,118	193	392	1,133	10,510	-89.22%
Other	<u>82,135</u>	<u>11,714</u>	<u>-</u>	<u>-</u>	<u>82,135</u>	<u>11,714</u>	601.17%
Total revenues	<u>2,548,498</u>	<u>2,355,336</u>	<u>100,157</u>	<u>88,372</u>	<u>2,648,655</u>	<u>2,443,708</u>	8.39%
Program expenses							
Governmental activities							
Instruction	1,760,171	1,819,939	-	-	1,760,171	1,819,939	-3.28%
Support services	549,313	567,785	-	-	549,313	567,785	-3.25%
Non-instructional programs	1,066	1,066	141,929	161,256	142,995	162,322	-11.91%
Other expenses	<u>158,209</u>	<u>150,382</u>	<u>-</u>	<u>-</u>	<u>158,209</u>	<u>150,382</u>	5.20%
Total expenses	<u>2,468,759</u>	<u>2,539,172</u>	<u>141,929</u>	<u>161,256</u>	<u>2,610,688</u>	<u>2,700,428</u>	-3.32%
Excess (deficiency) before transfers							
and special items	79,739	(183,836)	(41,772)	(72,884)	37,967	(256,720)	-114.79%
Special item - gain on disposal of capital assets	-	11,337	-	-	-	11,337	-100.00%
Transfers	<u>(34,608)</u>	<u>(53,066)</u>	<u>34,608</u>	<u>53,066</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	45,131	(225,565)	(7,164)	(19,818)	37,967	(245,383)	-115.47%
Net assets, beginning of year, as restated	<u>1,315,452</u>	<u>1,541,017</u>	<u>(39,977)</u>	<u>(20,159)</u>	<u>1,275,475</u>	<u>1,520,858</u>	-16.13%
Net assets, end of year	<u>\$ 1,360,583</u>	<u>\$ 1,315,452</u>	<u>\$ (47,141)</u>	<u>\$ (39,977)</u>	<u>\$ 1,313,442</u>	<u>\$ 1,275,475</u>	2.98%

In fiscal 2011, property tax and unrestricted state grants account for approximately 67% of the revenue from governmental activities while charges for service and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$2,648,655 of which \$2,548,498 was for governmental activities and \$100,157 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% increase in revenues and a 3% decrease in expenses. Unrestricted state grants increased \$172,438 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$2,548,498 and expenses were \$2,468,759 for the year ended June 30, 2011. In a difficult budget year, the District was able to balance the budget by cutting most expenses.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Instruction	\$ 1,760,171	\$ 1,819,939	-3.3%	\$ 1,186,052	\$ 1,204,923	-1.6%
Support services	549,313	567,785	-3.3%	531,103	547,816	-3.1%
Non-instructional programs	1,066	1,066	0.0%	1,066	1,066	0.0%
Other expenses	<u>158,209</u>	<u>150,382</u>	5.2%	<u>68,261</u>	<u>62,823</u>	8.7%
Total expenses	<u>\$ 2,468,759</u>	<u>\$ 2,539,172</u>	-2.8%	<u>\$ 1,786,482</u>	<u>\$ 1,816,628</u>	-1.7%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$236,542.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$445,735.
- The net cost of governmental activities was financed with \$862,889 in property tax and other taxes and \$918,954 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2011 were \$141,929 representing a 13% increase over the prior year and expenses were \$141,929, a 12% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Daycare/Preschool Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During 2011 the District had fewer pre-kindergarten students included in the certified enrollment count than in 2010; therefore, the District received less state aid funding for students included in the preschool program.

Individual Fund Analysis

As previously noted, the Morning Sun Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$549,275, well above last year's ending fund

balances of \$497,274. This is due to more revenues for the year and decreased expenditures.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. The District was very conservative with expenditures during FY11.
- The Capital Projects, Statewide Sales, Services and Use Tax Fund balance increased from \$288,494 in 2010 to \$331,852 in 2011 due to the collection of local option sales and service tax revenues exceeding the amount spent on building projects during the year.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$(39,977) at June 30, 2010 to \$(47,141) at June 30, 2011, representing an increase of approximately 18%. Revenues increased due to increased numbers on certified enrollment and a transfer from the General Fund while expenditures decreased due to salaries and benefits and food costs during the year ended June 30, 2011.

Budgetary Highlights

During the year ended June 30, 2011, the Morning Sun Community School District did not amend its annual budget.

The District's revenues were \$735,147 less than budgeted revenues, a variance of 22%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were \$3,222,826 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Capital Asset Administration

Capital Assets

At June 30, 2011, the District had invested \$760,424 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of approximately 3% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$43,128.

The original cost of the District's capital assets was \$1,871,569. Governmental funds account for \$1,806,424 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which decreased from \$112,125 in 2010 to \$101,211 in 2011. This decrease was a result of the annual depreciation taken.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	350,418	359,218	-	-	350,418	359,218	-2.45%
Improvements, other than buildings	81,795	87,229	-	-	81,795	87,229	-6.23%
Furniture and equipment	<u>101,159</u>	<u>111,987</u>	<u>52</u>	<u>138</u>	<u>101,211</u>	<u>112,125</u>	-9.73%
Totals	<u>\$760,372</u>	<u>\$785,434</u>	<u>\$ 52</u>	<u>\$ 138</u>	<u>\$760,424</u>	<u>\$785,572</u>	-3.20%

Long-Term Debt

At June 30, 2011, the District had \$3,101 long-term debt outstanding. This represents a decrease of 91% from the prior year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$2.5

Figure A-7
Outstanding Long-term
Obligations

	Total		Total
	District		Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Termination benefits	\$ -	\$ 34,500	-100.00%
OPEB	<u>3,101</u>	<u>-</u>	100.00%
Totals	<u>\$ 3,101</u>	<u>\$ 34,500</u>	-91.01%

Economic Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The passing of the SILO Tax on March 2, 2010 was a positive fiscal highlight for FY05 and subsequent years for the Morning Sun Community School District, bringing in revenue for the Capital Project Fund of approximately \$135,000 each

year. Because the election was held after May 30, 2010, funds can be used according to PPEL guidelines.

- The District has experienced stable enrollment for the past several years and expects this to continue.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Booth, District Secretary/Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 639,171	\$ -	\$ 639,171
Receivables			
Property tax			
Delinquent	10,132	-	10,132
Succeeding year	823,452	-	823,452
Accounts receivable	1,023	217	1,240
Income surtax	53,946	-	53,946
Due from other governments	35,642	-	35,642
Due from other fund	52,947	42,629	95,576
Inventories	-	309	309
Non-depreciable capital assets	227,000	-	227,000
Capital assets, net of accumulated depreciation	533,372	52	533,424
Total assets	<u>2,376,685</u>	<u>43,207</u>	<u>2,419,892</u>
Liabilities			
Accounts payable	3,318	-	3,318
Negative cash	-	37,401	37,401
Due to other fund	42,629	52,947	95,576
Due to other governments	43,693	-	43,693
Deferred revenue			
Succeeding year property tax	823,452	-	823,452
ISCAP warrants payable	100,000	-	100,000
Long-term liabilities			
Portion due after one year			
Net OPEB liability	3,010	-	3,010
Total liabilities	<u>1,016,102</u>	<u>90,348</u>	<u>1,106,450</u>
Net Assets			
Invested in capital assets	760,372	52	760,424
Restricted for			
Categorical funding	10,318	-	10,318
Management levy purposes	161,935	-	161,935
Physical plant and equipment levy	9,221	-	9,221
Capital projects	331,852	-	331,852
Unrestricted	86,885	(47,193)	39,692
Total net assets	<u>\$1,360,583</u>	<u>\$ (47,141)</u>	<u>\$ 1,313,442</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

<u>Functions/Programs</u> Governmental activities	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Business Type Activities</u>	<u>Activities</u>
Instruction						
Regular instruction	\$ 1,321,455	\$ 230,420	\$ 319,152	\$ -	\$ (771,883)	\$ (771,883)
Special instruction	361,286	-	24,547	-	(336,739)	(336,739)
Other instruction	77,430	-	-	-	(77,430)	(77,430)
	<u>1,760,171</u>	<u>230,420</u>	<u>343,699</u>	<u>-</u>	<u>(1,186,052)</u>	<u>(1,186,052)</u>
Support services						
Student	122,425	-	-	-	(122,425)	(122,425)
Instructional staff	25,496	-	826	-	(24,670)	(24,670)
Administration	217,737	-	-	-	(217,737)	(217,737)
Operation and maintenance of plant	134,621	6,122	11,262	-	(117,237)	(117,237)
Transportation	49,034	-	-	-	(49,034)	(49,034)
	<u>549,313</u>	<u>6,122</u>	<u>12,088</u>	<u>-</u>	<u>(531,103)</u>	<u>(531,103)</u>
	<u>1,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,066)</u>	<u>(1,066)</u>
Non-instructional programs						
Other expenses						
Facilities acquisition	49,305	-	-	-	(49,305)	(49,305)
AEA flowthrough	89,948	-	89,948	-	-	-
Depreciation (unallocated) *	18,956	-	-	-	(18,956)	(18,956)
	<u>158,209</u>	<u>-</u>	<u>89,948</u>	<u>-</u>	<u>(68,261)</u>	<u>(68,261)</u>
Total governmental activities	<u>2,468,759</u>	<u>236,542</u>	<u>445,735</u>	<u>-</u>	<u>(1,786,482)</u>	<u>(1,786,482)</u>

See notes to financial statements.

Exhibit B

* This amount excludes the depreciation included in the direct expenses of the various programs.

17

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2011

Exhibit C

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 135,077	\$ 331,852	\$172,242	\$ 639,171
Receivables				
Property tax				
Delinquent	10,132	-	-	10,132
Succeeding year	823,452	-	-	823,452
Accounts receivable	273	-	750	1,023
Income surtax	53,946	-	-	53,946
Due from other governments	35,642	-	-	35,642
Due from other funds	52,947	-	-	52,947
Total assets	<u>\$1,111,469</u>	<u>\$ 331,852</u>	<u>\$172,992</u>	<u>\$1,616,313</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,482	\$ -	\$ 1,836	\$ 3,318
Due to other funds	42,629	-	-	42,629
Due to other governments	43,693	-	-	43,693
ISCAP warrants payable	100,000	-	-	100,000
Deferred revenue				
Succeeding year property tax	823,452	-	-	823,452
Income surtax	53,946	-	-	53,946
Total liabilities	<u>1,065,202</u>	<u>-</u>	<u>1,836</u>	<u>1,067,038</u>
Fund balances				
Restricted for				
Categorical funding	10,318	-	-	10,318
Management levy purposes	-	-	161,935	161,935
School infrastructure	-	331,852	-	331,852
Physical plant and equipment	-	-	9,221	9,221
Unassigned	35,949	-	-	35,949
Total fund balances	<u>46,267</u>	<u>331,852</u>	<u>171,156</u>	<u>549,275</u>
Total liabilities and fund balances	<u>\$1,111,469</u>	<u>\$ 331,852</u>	<u>\$172,992</u>	<u>\$1,616,313</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit D

Total fund balances of governmental funds	\$ 549,275
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	760,372
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	53,946
Long-term liabilities, specifically net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,010)</u>
 Net assets of governmental activities	 <u><u>\$1,360,583</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

		Capital Projects <u>Statewide</u>	Nonmajor Governmental	
	<u>General</u>	<u>Sales, Services and Use Tax</u>	<u>Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 797,111	\$ 67,076	\$ -	\$ 864,187
Tuition	227,615	-	-	227,615
Other	75,299	-	13,438	88,737
State sources	1,210,211	-	-	1,210,211
Federal sources	159,337	-	-	159,337
Total revenues	<u>2,469,573</u>	<u>67,076</u>	<u>13,438</u>	<u>2,550,087</u>
Expenditures				
Current				
Instruction				
Regular	1,348,343	-	10,196	1,358,539
Special	308,048	-	52,500	360,548
Other	77,272	-	-	77,272
	<u>1,733,663</u>	<u>-</u>	<u>62,696</u>	<u>1,796,359</u>
Support services				
Student	122,077	-	-	122,077
Instructional staff	25,431	-	-	25,431
Administration	215,399	-	1,749	217,148
Operation & maintenance of plant	122,298	-	12,090	134,388
Transportation	38,531	-	-	38,531
	<u>523,736</u>	<u>-</u>	<u>13,839</u>	<u>537,575</u>
Other expenditures				
Facilities acquisition	-	23,718	25,587	49,305
AEA flowthrough	89,948	-	-	89,948
	<u>89,948</u>	<u>23,718</u>	<u>25,587</u>	<u>139,253</u>
Total expenditures	<u>2,347,347</u>	<u>23,718</u>	<u>102,122</u>	<u>2,473,187</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

	General	Capital Projects Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total
Excess (deficiency) of revenues over (under) expenditures	\$ 122,226	\$ 43,358	\$ (88,684)	\$ 76,900
Other financing sources (uses)				
Disposal of real or personal property	9,709	-	-	9,709
Interfund operating transfers out	(34,608)	-	-	(34,608)
Total other financing (uses)	(24,899)	-	-	(24,899)
Net change in fund balance	97,327	43,358	(88,684)	52,001
Fund balance, beginning of year, as restated	(51,060)	288,494	259,840	497,274
Fund balance, end of year	\$ 46,267	\$331,852	\$ 171,156	\$ 549,275

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Exhibit F

Net change in fund balances - total governmental funds	\$52,001
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**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$17,980	
Depreciation expense	<u>(43,042)</u>	(25,062)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(11,298)
--	----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement termination benefits	34,500	
Net postemployment benefits	<u>(5,010)</u>	<u>29,490</u>

Change in net assets of governmental activities	<u>\$45,131</u>
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MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2011

Exhibit G

	Daycare & <u>Preschool</u>	<u>Nonmajor</u> School <u>Nutrition</u>	<u>Total</u>
Assets			
Accounts receivable	\$ -	\$ 217	\$ 217
Due from other fund	42,629	-	42,629
Inventories	-	309	309
Capital assets, net of accumulated depreciation	-	52	52
Total assets	<u>42,629</u>	<u>578</u>	<u>43,207</u>
Liabilities			
Negative cash	35,240	2,161	37,401
Due to other funds	52,947	-	52,947
Total liabilities	<u>88,187</u>	<u>2,161</u>	<u>90,348</u>
Net Assets			
Invested in capital assets	-	52	52
Unrestricted	(45,558)	(1,635)	(47,193)
Total net assets	<u>\$(45,558)</u>	<u>\$(1,583)</u>	<u>\$(47,141)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit H

	Daycare & <u>Preschool</u>	<u>Nonmajor School Nutrition</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 40,604	\$25,392	\$ 65,996
Operating expenses			
Instruction			
Regular			
Salaries	73,001	-	73,001
Benefits	10,658	-	10,658
	<u>83,659</u>	<u>-</u>	<u>83,659</u>
Support services			
Operation and maintenance of plant			
Purchased services	-	254	254
Non-instructional programs			
Food service operations			
Salaries	-	24,817	24,817
Benefits	-	3,623	3,623
Purchased services	-	468	468
Supplies	-	25,896	25,896
Depreciation	-	86	86
	<u>-</u>	<u>54,890</u>	<u>54,890</u>
Other enterprise operations			
Benefits	65	-	65
Supplies	3,061	-	3,061
	<u>3,126</u>	<u>-</u>	<u>3,126</u>
Total non-instructional programs	<u>3,126</u>	<u>54,890</u>	<u>58,016</u>
Total operating expenses	<u>86,785</u>	<u>55,144</u>	<u>141,929</u>
Operating loss	<u>(46,181)</u>	<u>(29,752)</u>	<u>(75,933)</u>
Non-operating revenues			
Interest income	131	62	193
State sources	-	554	554
Federal sources	-	33,414	33,414
Total non-operating revenues	<u>131</u>	<u>34,030</u>	<u>34,161</u>
Net income (loss) before transfers	(46,050)	4,278	(41,772)
Transfers in	<u>34,608</u>	<u>-</u>	<u>34,608</u>
Net income (loss)	(11,442)	4,278	(7,164)
Net assets, beginning of year	<u>(34,116)</u>	<u>(5,861)</u>	<u>(39,977)</u>
Net assets, end of year	<u>\$ (45,558)</u>	<u>\$ (1,583)</u>	<u>\$(47,141)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit I

	<u>Daycare & Preschool</u>	<u>Nonmajor School Nutrition</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 41,728	\$ 25,225	\$ 66,953
Cash payments to employees for services	(73,406)	(28,835)	(102,241)
Cash payments to suppliers for goods and services	(3,061)	(26,707)	(29,768)
Net cash used in operating activities	<u>(34,739)</u>	<u>(30,317)</u>	<u>(65,056)</u>
Cash flows from non-capital financing activities			
Operating transfers from other fund	34,608	-	34,608
State grants received	-	554	554
Federal grants received	-	29,701	29,701
Net cash provided by non-capital financing activities	<u>34,608</u>	<u>30,255</u>	<u>64,863</u>
Cash flows from capital and related financing activities	<u>-</u>		
Cash flows from investing activities			
Interest on investments	131	62	193
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(46,181)	\$(29,752)	\$ (75,933)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	-	86	86
Commodities used	-	3,713	3,713
(Increase) decrease in accounts receivable	450	(167)	283
Decrease in inventory	-	592	592
(Increase) in due from other fund	(42,629)	-	(42,629)
Increase in due to other funds	52,947	-	52,947
(Decrease) in salaries and benefits payable	-	(395)	(395)
Increase (decrease) in negative cash	674	(4,394)	(3,720)
Net cash used in operating activities	<u>\$(34,739)</u>	<u>\$(30,317)</u>	<u>\$ (65,056)</u>

Non-cash investing, capital and related financing activities

During the year ended June 30, 2011, the District received \$3,713 of federal commodities.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements. The geographic area served includes the City of Morning Sun, Iowa, and the agricultural territory in Des Moines and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Morning Sun Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Morning Sun Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales, services tax to be expended for school infrastructure purposes.

The District reports the following major proprietary fund:

The Enterprise, Daycare & Preschool Fund is used to account for the daycare and preschool operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and

producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$50,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. At June 30, 2011 there was no liability for termination benefits.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent federal grant proceeds as well as property tax and income surtax receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. The government-wide Statement of Net Assets reports \$171,156 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$187,619 pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major		
Enterprise, Daycare & Preschool	General	\$ 34,608

The transfers between the Daycare/Preschool Fund and General Fund were to move state foundation aid received for preschool students from the General Fund to the Daycare/Preschool Fund where expenditures for these students were recorded.

Note 4. Due To and Due From Other Funds

Details of the interfund receivables and payables at June 30, 2011 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-major		
Daycare & Preschool	General	\$ 42,629
	Non-major	
General	Daycare & Preschool	<u>52,947</u>
		<u>\$ 95,576</u>

These interfund receivables and payables are to correct for coding errors between the two funds.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2011 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2010-11B	1/26/11	1/25/12	\$ -	\$ 100,000	\$ -	\$ 100,000

The District did not pay any interest on the ISCAP warrants during the year ended June 30, 2011.

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Capital assets being depreciated:				
Buildings and improvements	873,237	-	-	873,237
Improvements other than buildings	211,557	-	-	211,557
Furniture and equipment	487,349	17,980	(10,699)	494,630
Total capital assets being depreciated	1,572,143	17,980	(10,699)	1,579,424
Less accumulated depreciation for:				
Buildings and improvements	514,019	8,800	-	522,819
Improvements other than buildings	124,328	5,434	-	129,762
Furniture and equipment	375,362	28,808	(10,699)	393,471
Total accumulated depreciation	1,013,709	43,042	(10,699)	1,046,052
Total capital assets being depreciated, net	558,434	(25,062)	-	533,372
Governmental activities capital assets, net	<u>\$ 785,434</u>	<u>\$ (25,062)</u>	<u>\$ -</u>	<u>\$ 760,372</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	65,007	86	-	65,093
Business type activities capital assets, net	<u>\$ 138</u>	<u>\$ (86)</u>	<u>\$ -</u>	<u>\$ 52</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 12,617
Transportation	10,403
Non-instructional programs	1,066
	24,086
Unallocated depreciation	18,956
Total governmental activities depreciation expense	<u>\$ 43,042</u>

Business type activities

Food services	<u>\$ 86</u>
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Note 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
Termination benefits	\$ 34,500	\$ -	\$ 34,500	\$ -	\$ -
OPEB liability	-	3,101	-	3,101	-
Totals	<u>\$ 34,500</u>	<u>\$ 3,101</u>	<u>\$ 34,500</u>	<u>\$ 3,101</u>	<u>\$ -</u>

Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.50%, 4.30% and 4.10 % of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$88,655, \$87,486 and \$43,149, respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 19 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 5,000
Interest on net OPEB obligation	90
Adjustment to annual required contribution	<u>(80)</u>
Annual OPEB cost	5,010
Contributions made	<u>-</u>
Increase in net OPEB obligation	5,010
Net OPEB obligation beginning of year	<u>(2,000)</u>
Net OPEB obligation end of year	<u>\$ 3,010</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB asset was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed nothing to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year	Annual	Percentage of	Net
<u>Ended</u>	<u>OPEB Cost</u>	<u>Annual OPEB</u>	<u>OPEB</u>
		<u>Cost Contributed</u>	<u>Obligation</u>
6/30/2011	\$5,010	0.0%	\$3,010

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$82,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$82,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.268 million and the ratio of UAAL to covered payroll was 6.5%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP-2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$472.00 for single and \$1,128.00 for individual and spouse. Upon retirement, the retired participant is assumed to pay 100% of the required premium. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$89,948 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 13. Deficit Fund Balances

The District's Enterprise Fund, School Nutrition Fund and Daycare & Preschool Fund had unrestricted net assets deficits of \$1,635 and \$45,558, respectively and the total proprietary funds had an unrestricted net assets deficit of \$47,193 at June 30, 2011.

Note 14. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects, Physical Plant and Equipment <u>Levy</u>	Special Revenue, Physical Plant and Equipment <u>Levy</u>
Balances June 30, 2010, as previously reported	\$ -	\$ 23,509
Change in fund type classification per implementation of GASB Statement No. 54	<u>23,509</u>	<u>(23,509)</u>
Balances July 1, 2010, as restated	<u><u>\$ 23,509</u></u>	<u><u>\$ -</u></u>

Note 15. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.
- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District

beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and government operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

• The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Required Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2011

	Governmental		Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Funds	Funds		Original	Final	
Revenues	Actual	Actual	Actual	Actual			
Local sources	\$1,180,539	\$ 66,189	\$ 66,189	\$1,246,728	\$ 1,869,303	\$ 1,869,303	\$ (622,575)
State sources	1,210,211	554	554	1,210,765	1,326,088	1,326,088	(115,323)
Federal sources	159,337	33,414	33,414	192,751	190,000	190,000	2,751
Total revenues	<u>2,550,087</u>	<u>100,157</u>	<u>100,157</u>	<u>2,650,244</u>	<u>3,385,391</u>	<u>3,385,391</u>	<u>(735,147)</u>
Expenditures/expenses							
Instruction	1,796,359	83,659	83,659	1,880,018	2,179,715	2,179,715	299,697
Support services	537,575	254	254	537,829	1,310,143	1,310,143	772,314
Non-instructional programs	-	58,016	58,016	58,016	244,416	244,416	186,400
Other expenditures	139,253	-	-	139,253	2,103,668	2,103,668	1,964,415
Total expenditures/expenses	<u>2,473,187</u>	<u>141,929</u>	<u>141,929</u>	<u>2,615,116</u>	<u>5,837,942</u>	<u>5,837,942</u>	<u>3,222,826</u>
Excess (deficiency) of revenues (under) expenditures/expenses	76,900	(41,772)	(41,772)	35,128	(2,452,551)	(2,452,551)	2,487,679
Net other financing sources (uses), net	<u>(24,899)</u>	<u>34,608</u>	<u>34,608</u>	<u>9,709</u>	<u>1,575,000</u>	<u>1,575,000</u>	<u>(1,565,291)</u>
Excess (deficiency) of revenues and other financing sources (under) expenditures/expenses and other financing (uses)	52,001	(7,164)	(7,164)	44,837	(877,551)	(877,551)	922,388
Balance, beginning of year	497,274	(39,977)	(39,977)	457,297	877,846	877,846	(420,549)
Balance, end of year	<u>\$ 549,275</u>	<u>\$ (47,141)</u>	<u>\$ (47,141)</u>	<u>\$ 502,134</u>	<u>\$ 295</u>	<u>\$ 295</u>	<u>\$ 501,839</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures/expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$82,000	\$82,000	0%	\$1,326,792	6.2%
2011	July 1, 2009	\$ -	\$82,000	\$82,000	0%	\$1,268,429	6.5%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

Schedule 1

	<u>Special Revenue</u>	<u>Capital Projects</u> Physical Plant and Equipment	
	Management <u>Levy</u>	<u>Levy</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$161,185	\$ 11,057	\$172,242
Receivables			
Accounts receivable	<u>750</u>	<u>-</u>	<u>750</u>
Total assets	<u>\$161,935</u>	<u>\$ 11,057</u>	<u>\$172,992</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	<u>\$ -</u>	<u>\$ 1,836</u>	<u>\$ 1,836</u>
Fund balances			
Restricted for			
Management levy purposes	161,935	-	161,935
School infrastructure	<u>-</u>	<u>9,221</u>	<u>9,221</u>
Total fund balances	<u>161,935</u>	<u>9,221</u>	<u>171,156</u>
Total liabilities and fund balances	<u>\$161,935</u>	<u>\$ 11,057</u>	<u>\$172,992</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

Schedule 2

	<u>Special Revenue</u>	<u>Capital Projects Physical Plant and Equipment</u>	
	<u>Management Levy</u>	<u>Levy</u>	<u>Total</u>
Revenues			
Local sources			
Other	\$ 2,139	\$ 11,299	\$ 13,438
Expenditures			
Current			
Instruction			
Regular	10,196	-	10,196
Special	52,500	-	52,500
Total instruction	62,696	-	62,696
Support services			
Administration	1,749	-	1,749
Operation and maintenance of plant	12,090	-	12,090
Total support services	13,839	-	13,839
Other expenditures			
Facilities acquisition	-	25,587	25,587
Total expenditures	76,535	25,587	102,122
Net change in fund balances	(74,396)	(25,587)	(102,122)
Fund balances, beginning of year, as restated	236,331	23,509	259,840
Fund balances, end of year	\$ 161,935	\$ 9,221	\$171,156

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Eight Years

	Modified Accrual Basis							
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues								
Local sources								
Local tax	\$ 864,187	\$ 858,439	\$ 791,866	\$ 769,237	\$ 767,387	\$ 733,483	\$ 707,193	\$ 662,632
Tuition	227,615	229,970	489,147	565,525	374,903	468,233	588,995	529,136
Other	88,737	24,415	264,420	75,294	112,252	50,175	141,474	105,148
State sources	1,210,211	974,511	1,256,395	1,172,733	1,150,726	1,088,780	999,550	1,045,986
Federal sources	159,337	285,273	80,051	66,230	93,835	76,459	76,662	74,167
Total revenues	<u>\$2,550,087</u>	<u>\$2,372,608</u>	<u>\$2,881,879</u>	<u>\$2,649,019</u>	<u>\$2,499,103</u>	<u>\$2,417,130</u>	<u>\$2,513,874</u>	<u>\$2,417,069</u>
Expenditures								
Current								
Instruction								
Regular	\$1,358,539	\$1,489,824	\$1,556,146	\$1,513,488	\$1,410,647	\$1,414,682	\$1,665,278	\$1,596,738
Special	360,548	307,443	305,761	330,433	264,987	268,192	48,168	49,226
Other	77,272	38,730	31,528	37,023	14,139	21,549	-	-
Support services								
Student	122,077	106,115	106,958	80,443	79,001	81,557	89,124	87,282
Instructional staff	25,431	32,218	29,274	28,312	27,795	36,302	25,013	21,409
Administration	217,148	226,088	430,554	258,045	234,498	193,872	309,111	212,033
Operation and maintenance of plant	134,388	157,017	191,864	191,355	191,342	154,092	154,935	120,761
Transportation	38,531	36,472	36,427	37,885	32,157	37,055	34,094	28,044
Other expenditures								
Facilities acquisition	49,305	179,331	50,107	145,998	130,150	52,121	52,949	84,958
AEA flowthrough	89,948	87,559	82,242	74,630	72,062	66,969	64,561	66,021
Total expenditures	<u>\$2,473,187</u>	<u>\$2,660,797</u>	<u>\$2,820,861</u>	<u>\$2,697,612</u>	<u>\$2,456,778</u>	<u>\$2,326,391</u>	<u>\$2,443,233</u>	<u>\$2,266,472</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 8, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Morning Sun Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal

control described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morning Sun Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Morning Sun Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Morning Sun Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Morning Sun Community School District and other parties to whom Morning Sun Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Morning Sun Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
February 8, 2012

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions – No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely.
11. Deficit Balances - The District's Enterprise Funds - School Nutrition Fund and Daycare & Preschool Fund had unrestricted net assets deficits of \$1,635 and \$45,558, respectively and total Enterprise Funds had an unrestricted net assets deficit of \$47,193 at June 30, 2011.

Recommendation - The District should review the operations of these funds and investigate alternatives to eliminate these deficits.

Response - The District is continuing to investigate alternatives to eliminate these deficits and we will take appropriate action as we deem necessary.

Conclusion - Response accepted.

12. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
13. Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$ 288,494
Sales tax revenues	67,076
Expenditures/transfers out	
School infrastructure	
Building improvements	<u>(23,718)</u>
Ending balance	<u>\$ 331,852</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2011

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant